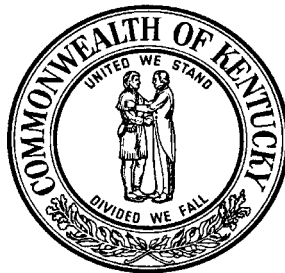


**REPORT OF THE AUDIT OF THE  
NELSON COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 15, 2005**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary of the Finance and Administration Cabinet

Honorable Dean Watts, Nelson County Judge/Executive

Honorable Mike Newton, Nelson County Sheriff

Members of the Nelson County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Nelson County Sheriff's Settlement - 2004 Taxes as of April 15, 2005.

We engaged Tichenor & Associates, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Nelson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
NELSON COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 15, 2005**

Tichenor & Associates, LLP, has completed the audit of the Sheriff's Settlement - 2004 Taxes for Nelson County Sheriff as of April 15, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$13,817,024 for the districts for 2004 taxes, retaining commissions of \$441,754 to operate the Sheriff's office. The Sheriff distributed taxes of \$13,346,055 to the districts for 2004 Taxes. Taxes of \$65 are due to the districts from the Sheriff and refunds of \$301 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Eliminate The \$8,850 Deficit In The 2003 Tax Account
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**TICHENOR & ASSOCIATES, LLP**  
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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Dean Watts, Nelson County Judge/Executive

Honorable Mike Newton, Nelson County Sheriff

Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the Nelson County Sheriff's Settlement - 2004 Taxes as of April 15, 2005. This tax settlement is the responsibility of the Nelson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nelson County Sheriff's taxes charged, credited, and paid as of April 15, 2005, in conformity with the modified cash basis of accounting.

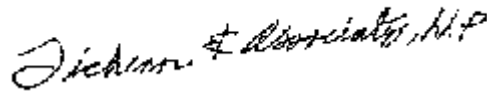
In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2005, on our consideration of the Nelson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Dean Watts, Nelson County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Eliminate The \$8,850 Deficit In The 2003 Tax Account
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -  
October 14, 2005

NELSON COUNTY  
MIKE NEWTON, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

April 15, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,156,092	\$ 1,007,574	\$ 5,418,027	\$ 2,064,592
Tangible Personal Property	156,087	69,242	163,499	532,390
Intangible Personal Property				327,464
Fire Protection	660			
Fire Service Fees		474,403		
Increases Through Exonerations	1,482	818	4,776	1,517
Franchise Corporation	100,434	44,384	245,202	
Distilled Spirits Taxes	393,843	174,857	754,402	
Additional Billings	2,537	1,936	2,723	2,383
Limestone, Sand, and Mineral Reserves	558	236	2,143	534
Bank Franchises	118,941			
Penalties	11,018	8,765	30,371	11,110
Adjusted to Sheriff's Receipt	696	1,261		585
Gross Chargeable to Sheriff	<u>\$ 2,942,348</u>	<u>\$ 1,783,476</u>	<u>\$ 6,621,143</u>	<u>\$ 2,940,575</u>
<u>Credits</u>				
Exonerations	\$ 17,374	\$ 12,283	\$ 56,661	\$ 16,750
Discounts	45,754	26,670	98,054	46,369
Delinquents:				
Real Estate	28,021	24,387	66,701	26,793
Tangible Personal Property	1,154	512	224	2,542
Intangible Personal Property				239
Uncollected Franchise	10	5	15	
Total Credits	<u>\$ 92,313</u>	<u>\$ 63,857</u>	<u>\$ 221,655</u>	<u>\$ 92,693</u>
Taxes Collected	\$ 2,850,035	\$ 1,719,619	\$ 6,399,488	\$ 2,847,882
Less: Commissions *	121,414	58,228	140,789	121,323
Taxes Due	\$ 2,728,621	\$ 1,661,391	\$ 6,258,699	\$ 2,726,559
Taxes Paid	2,723,465	1,659,015	6,241,982	2,721,593
Refunds (Current and Prior Year)	5,250	2,350	16,764	5,087
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (94)</u>	<u>\$ 26</u>	<u>\$ (47)</u>	<u>\$ (121)</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY  
 MIKE NEWTON, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 April 15, 2005  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	6,950,427
2.2% on	\$	6,399,488
1% on	\$	457,109

\*\* Special Taxing Districts:

Library District	\$	48
Extension District		11
Soil District		6
New Hope Fire District		<u>(39)</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>26</u></u>

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 15, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 15, 2005  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 2004 through April 15, 2005.

Note 4. Interest Income

The Nelson County Sheriff earned \$3,904 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Nelson County Sheriff collected \$27,597 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 7, 2005, the Sheriff owes \$922 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Nelson County Sheriff collected \$3,115 of advertising costs and \$1,120 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of October 7, 2005, the Sheriff owes \$1,120 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$21,375 in unrefundable duplicate payments and unexplained receipts.

## COMMENTS AND RECOMMENDATIONS



NELSON COUNTY  
MIKE NEWTON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 15, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate The \$8,850 Deficit In The 2003 Tax Account

The Sheriff had a deficit of \$8,850 in his 2003 official tax account. This was included in the prior year audit comments and has not been corrected. We recommend the Sheriff deposit \$8,850 from personal funds to his 2003 official tax account so that all outstanding liabilities may be paid to close this account.

*Sheriff's Response:*

*Before I borrow money to close this account, I would like to know where the problem is, if there was a problem. We never had any problems in the 2002 tax and now 2004 tax season. My complaint is that my records were taken from the office in December 2004 and then returned August 2005. With a deficit of \$8,850, I would like to have time to investigate it. We turned around and was audited for the 2004 tax season and have a large surplus, with no problem. Why did we have a deficit in 2003 and are over in 2004?*

Auditor of Public Accounts' Reply:

The deficit was explained to the Sheriff in the exit conference for the audit of the Nelson County Sheriff's Settlement 2003 Taxes. The audit is public record.

The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports

The Sheriff had receipts in his official tax account during the months of July, August, and September 2004. These receipts were for tax collections during those months. We found that the Sheriff did not prepare monthly reports until the month of October. KRS 134.300 requires monthly tax reports to be accurate and payments be made by the tenth of each month following the collection of taxes. We recommend the Sheriff prepare accurate and timely tax reports and make payments by the tenth of each month following the collection of taxes.

*Sheriff's Response:*

*An auditor told me not to worry about sending a report if it wasn't a substantial amount. So I just put it on the October report. This will not recur.*

NELSON COUNTY  
MIKE NEWTON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 15, 2005  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties, which we consider to be a reportable condition. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties. We recommend the Sheriff implement some compensating controls to offset the weakness in the internal control structure.

- Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.
- The Sheriff should periodically, agree daily tax collection totals to receipts ledger and deposit slip and agree monthly tax reports to receipts ledger. The Sheriff should document this review by initialing and dating the bank deposit, monthly tax reports and receipts ledger.

*Sheriff's Response:*

*We do have some segregation duties. We also have only one person opening mail.*

PRIOR YEAR:

Lacks Adequate Segregation of Duties

This was not corrected and is repeated in the current year.

The Sheriff Should Eliminate The Deficit In The 2003 Tax Account

This was not corrected and is repeated in the current year.

Sheriff's Daily Check Out Sheets Should Be Reconciled To Daily Deposit

This has been corrected.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Dean Watts, Nelson County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Nelson County Sheriff's Settlement - 2004 Taxes as of April 15, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

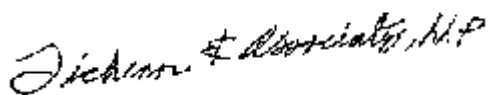
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's Settlement - 2004 Taxes as of April 15, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate The \$8,850 Deficit In The 2003 Tax Account
- The Sheriff Should Prepare Accurate And Timely Monthly Tax Reports

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name of the firm.

Tichenor & Associates, LLP

Audit fieldwork completed -  
October 14, 2005

